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OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS



DARLENE GREEN
Comptroller

Internal Audit Section

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July 21, 2008

Marjorie L. Melton, P.E.
President, Board of Public Service
City of St. Louis
1200 Market Street, Room 301
St. Louis, Missouri 63103-2869

RE: Special Review of Fuel Delivery Operations for Board of Public Service –
Equipment Services Division
(Project #2008-50)

Dear Ms. Melton:

Enclosed is a report of our Special Review of Fuel Delivery Operations for the Board of Public Service – Equipment Services Division. The objective of this review was to examine the internal controls surrounding the fuel delivery operations and make recommendations to enhance the control environment for the receipt and disbursement of the fuel. Our fieldwork was substantially completed on March 14, 2008. Management's responses to the observations and recommendations noted in this report (as well as in the prior audit report) were not provided to the Internal Audit Section.

This review was made under authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised, and has been conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

If you have any questions, please contact me at (314) 622-4723.

Respectfully,

A handwritten signature in black ink, appearing to read "Mohammad H. Adil".

Mohammad H. Adil, CPA
Internal Audit Manager

Enclosure

cc: Christopher D. Amos, Commissioner of Equipment Services
Gary D. Bess, Director of Parks, Recreation & Forestry
Daniel W. Skillman, Commissioner of Parks



CITY OF ST. LOUIS

***BOARD OF PUBLIC SERVICE
EQUIPMENT SERVICES DIVISION
FUEL DELIVERY OPERATIONS***

SPECIAL REVIEW

AS OF MARCH 14, 2008

PROJECT #2008-50

DATE ISSUED: JULY 21, 2008

***Prepared by:
The Internal Audit Section***



OFFICE OF THE COMPTROLLER

Honorable Darlene Green, Comptroller

CITY OF ST. LOUIS
BOARD OF PUBLIC SERVICE – EQUIPMENT SERVICES DIVISION
FUEL DELIVERY OPERATIONS
SPECIAL REVIEW

EXECUTIVE SUMMARY

Purpose

We have completed the Special Review of Fuel Delivery Operations for the Board of Public Service – Equipment Services Division. The objective of this review was to examine the internal controls surrounding the fuel delivery operations and make recommendations to enhance the control environment for the receipt and disbursement of the fuel.


Conclusion

The opportunity exists for Board of Public Service – Equipment Services Division to strengthen the internal controls surrounding the fuel delivery operations and enhance the control environment for the receipt and disbursement of the fuel. The following are observations resulting from our review:

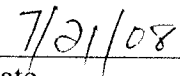
1. Verification of Fuel Prices Paid by the Fuel Supplier
2. Verification of Fuel Quantities Received
3. Right to Audit Clause
4. Physical Security of City of St. Louis Assets
5. Periodic Monitoring by a Party Independent of the Process
6. Procurement and Suspension and Debarment
7. Solicitation of Technology-Related Information Pertaining to Fuel Industry

Each of these observations is discussed in more detail in the *Detailed Observations, Recommendations and Management's Responses* section of this report.

This review was made under authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised, and has been conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.



Mohammad H. Adil, CPA
Internal Audit Manager



Date

**CITY OF ST. LOUIS
BOARD OF PUBLIC SERVICE – EQUIPMENT SERVICES DIVISION
FUEL DELIVERY OPERATIONS
SPECIAL REVIEW**

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**CITY OF ST. LOUIS
BOARD OF PUBLIC SERVICE – EQUIPMENT SERVICES DIVISION
FUEL DELIVERY OPERATIONS
SPECIAL REVIEW**

INTRODUCTION

Background

The Board of Public Service – Equipment Services Division (ESD) provides maintenance services to approximately 2,500 City of St. Louis (City) vehicles and various City equipment. ESD also provides fuel services to all City departments (excluding the Police Department and Lambert St. Louis International Airport). ESD has 80 full-time employees and operates four garage repair facilities and 15 refueling sites located throughout the City.

Purpose

The purpose of this special review was to examine the internal controls surrounding the fuel delivery operations and make recommendations to enhance the control environment for the receipt and disbursement of the fuel.

Scope and Methodology

We confined our review to evaluating the fuel operations of Board of Public Service – Equipment Services Division. Our procedures included inquiries of management and staff, observations of relevant processes and reviews for compliance with policies and procedures as well as applicable laws and regulations. We performed limited tests of controls, followed up on prior audit observations and performed other procedures considered necessary. Our fieldwork was substantially completed on March 14, 2008.

Exit Conference

We conducted an exit conference at Internal Audit Section (IAS) on March 20, 2008. ESD was represented at the exit conference by Christopher Amos, Commissioner of Equipment Services, and Patrick Dunn, Deputy Commissioner of Equipment Services. IAS was represented by Sedrick D. Blake, Audit/Fiscal Executive, Mohammad Adil, Internal Audit Manager, and Christopher Greenfield, Auditor-In-Charge. Freddie Dunlap, Supply Commissioner, also attended the exit conference.

Management's Responses

Management did not provide IAS with a response for the current observations prior to the issuance of this report.

**CITY OF ST. LOUIS
BOARD OF PUBLIC SERVICE – EQUIPMENT SERVICES DIVISION
FUEL DELIVERY OPERATIONS
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OBSERVATIONS

Summary of Current Observations

The opportunity exists for ESD to strengthen the internal controls surrounding the fuel delivery operations and enhance the control environment for the receipt and disbursement of the fuel. The following are observations resulting from our review:

1. Verification of Fuel Prices Paid by the Fuel Supplier
2. Verification of Fuel Quantities Received
3. Right to Audit Clause
4. Physical Security of City of St. Louis Assets
5. Periodic Monitoring by a Party Independent of the Process
6. Procurement and Suspension and Debarment
7. Solicitation of Technology-Related Information Pertaining to Fuel Industry

Each of these observations is discussed in more detail in the *Detailed Observations, Recommendations and Management's Responses* section of this report.

**CITY OF ST. LOUIS
BOARD OF PUBLIC SERVICE – EQUIPMENT SERVICES DIVISION
FUEL DELIVERY OPERATIONS
SPECIAL REVIEW**

**DETAILED OBSERVATIONS, RECOMMENDATIONS
AND MANAGEMENT'S RESPONSES**

1. Verification of Fuel Prices Paid by the Fuel Supplier

The present fuel purchasing contract between the City and the fuel supplier states that the fuel supplier will charge the City the same price that it pays for fuel in addition to a stipulated profit margin (per gallon). There is currently no procedure in place to verify the price that the fuel supplier paid for fuel. As such, the risk exists that the City is being billed for fuel at amounts in excess of those stipulated in the contract.

Recommendation

We recommend that ESD determine a method to verify the price the fuel supplier pays for fuel. The most efficient method to implement this recommendation would be to require the fuel supplier to verify the price(s) they paid for fuel when they submit invoices for payment.

Management's Response

Management did not provide IAS with a response for this observation prior to the issuance of this report.

2. Verification of Fuel Quantities Received

There are approximately 12 fuel tanks located in various City parks. The fuel in these tanks is primarily for the operation of the machinery/equipment used to maintain the parks. The fuel supplier delivers fuel to these various tanks (on an as-needed basis) and subsequently forwards invoices to the City for payment. There is currently no procedure in place to verify the amounts of fuel delivered to the fuel tanks. As such, the risk exists that the City is being billed for fuel that was not delivered.

Recommendation

We recommend that ESD determine a method to verify the quantity of each fuel delivery. We recommend that the supplier be required to complete a fuel delivery ticket for each fuel delivery.

**CITY OF ST. LOUIS
BOARD OF PUBLIC SERVICE – EQUIPMENT SERVICES DIVISION
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**DETAILED OBSERVATIONS, RECOMMENDATIONS
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2. Verification of Fuel Quantities Received (Cont.)

Additionally, the accuracy of fuel quantities per the fuel delivery tickets should be verified (via signature on the fuel delivery ticket) by an employee of the City Parks Division. The delivery tickets, which are signed by the driver for the supplier and a City Parks Division employee, should accompany each invoice.

Management's Response

Management did not provide IAS with a response for this observation prior to the issuance of this report.

3. Right to Audit Clause

The current fuel purchasing contract between the City and the fuel supplier (which expires in July 2008) does not contain a "Right to Audit" Clause. Including a "Right to Audit" Clause in the contract would allow the City (or an outside representative engaged by the City) to perform an audit of the fuel supplier's financial records to ensure that the City has been accurately charged for fuel. Failure to include a "Right to Audit" Clause may result in the City being billed for fuel at amounts in excess of those stipulated in the contract without the City having the right to examine the supplier's records.

Recommendation

We recommend the new fuel purchasing contract include a "Right to Audit" Clause. In addition, the clause should include the financial responsibilities of the fuel supplier if an audit is performed and it is determined that the City has been overcharged for fuel. We have attached an example of such a clause to this report (See Exhibit).

Management's Response

Management did not provide IAS with a response for this observation prior to the issuance of this report.

**CITY OF ST. LOUIS
BOARD OF PUBLIC SERVICE – EQUIPMENT SERVICES DIVISION
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**DETAILED OBSERVATIONS, RECOMMENDATIONS
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4. Physical Security of City of St. Louis Assets

While performing this special review, we visited one of the City parks that contained a fuel tank (as described above in Detailed Observation #2). The fuel tank, as well as several City-owned machinery items (for maintaining the park), were located in a fenced area; however, the fence was unlocked. We did note a small lock on the fuel tank pump; however, the lock did not provide adequate security for the fuel tank. Failure to provide adequate physical security may result in theft and/or unauthorized use of City assets.

Recommendation

We realize that physical security of City assets maintained in various City parks is the responsibility of the City Parks Division. As such, we recommend that ESD communicate the inadequate security of City assets to the City Parks Division. In addition, IAS will also forward a copy of this audit report to the City Parks Division management.

Management's Response

Management did not provide IAS with a response for this observation prior to the issuance of this report.

5. Periodic Monitoring by a Party Independent of the Process

The best systems of internal controls break down occasionally. When controls break down, assets which were previously safeguarded by the controls become susceptible to misappropriations. With the continuous increase in the cost of fuel, this City asset may become more valuable to parties who see the break down of the control environment as an opportunity.

Recommendation

There should be periodic monitoring of operations by a party independent of the process. To assist in developing and maintaining a strong internal control environment, IAS is available to work with ESD and City Parks Division to provide periodic monitoring of fuel operations.

**CITY OF ST. LOUIS
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5. Periodic Monitoring by a Party Independent of the Process (Cont.)

Management's Response

Management did not provide IAS with a response for this observation prior to the issuance of this report.

6. Procurement and Suspension and Debarment

Code of Federal Regulations Part 180 states that non-federal entities are prohibited from contracting with or making sub-awards under covered transactions to entities that are suspended or debarred or whose principals are suspended or debarred.

Recommendation

When entering into a new fuel contract, the City must verify that the other party is not suspended or debarred. This verification can be performed by: (a) checking the Excluded Party List System (EPLS); (b) obtaining a certification from the entity; or (c) adding a clause or condition to the covered transactions in the contract between the City and the other party.

Management's Response

Management did not provide IAS with a response for this observation prior to the issuance of this report.

7. Solicitation of Technology-Related Information Pertaining to Fuel Industry

Historically, when various industries have experienced volatile price fluctuations as the fuel industry is experiencing, companies within the industry have developed technology and other aids to assist in stabilization or efficiencies in operations.

Recommendation

The City should seek best practices used by vendors and others within the fuel industry to ascertain information which could lead to more efficient utilization of the resources available to the City. When such practices are determined to be beneficial to the City, these practices should be written and become procedures for City personnel to follow.

**CITY OF ST. LOUIS
BOARD OF PUBLIC SERVICE – EQUIPMENT SERVICES DIVISION
FUEL DELIVERY OPERATIONS
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7. Solicitation of Technology-Related Information Pertaining to Fuel Industry (Cont.)

Management's Response

Management did not provide IAS with a response for this observation prior to the issuance of this report.

Right to Audit Clause

The Contractor's "records" shall be open to inspection and subject to audit and/or reproduction during normal business working hours. A city representative may perform such audits or an outside representative engaged by the City. The City or its designee may conduct such audits or inspections throughout the term of this Contract and for a period of three years after final payment or longer if required by law.

The contractor's "records" as referred to in this Contract shall include any and all information, materials, and data of every kind and character, including without limitation, records, books, papers, documents, subscriptions, recordings, agreements, purchase orders, leases, contracts, commitments, arrangements, notes, daily, diaries, superintendent reports, drawings, receipts, vouchers, and memoranda, and any and all other agreements, sources of information and matters that may in City's judgment have any bearing on or pertain to any matters, rights, duties, or obligations under or covered by the Contract. Such records subject to audit shall also include, but be not limited to, those records necessary to evaluate and verify direct and indirect costs as they apply to cost associated with this contract. Such records shall include any and all records may have a bearing on matters of interest to the City on connection with the Contractor's work for the City to extent necessary to adequately permit evaluation and verification of:

Contractor's compliance with Contract requirements,
Compliance with provisions for pricing change orders, invoices or claims submitted by the Contractor or any of its payee.

The contractor shall require all payees (examples of payees include sub-contractors, insurance agents,) to comply with provisions of this article by insertion of the requirements hereof in any contract between the Contractor and payees. Such requirements to include flow-down right of audit provisions in contracts with payees will also apply to Subcontractors and Sub-Contractor's suppliers. Contractor will cooperate fully and will cause all Related Parties and all of Contractor's sub contractors to cooperate fully in furnishing or in making available to City from time to time whenever requested in an expeditious manner any and all such information, materials, and data.

The City' authorized representative or designee shall have reasonable access to the Contractor's facilities, shall be allowed to interview all current or former employee to discuss matters pertinent to the performance of this contract, and shall be provided adequate and appropriate work space, in order to conduct such audits in compliance with this article.

If an audit inspection or examination in accordance with this article disclose overpricing or overcharges by the Contractor to the City, the Contractor shall pay such funds due to the city within 15 days after the completion of the audit and written notice by the Director or designee. If disclose overpricing of overcharges by the Contractor are in excess of one-half of one percentage (.5%) of the total contract billings, the reasonable actual costs of the City' audit shall be reimbursed to the City by the Contractor. Any adjustments and/or payments which must be made as a result of any such audit or inspection of the Contractor's invoices and/or records shall be made within a reasonable amount of time (not to exceed 90 days) from presentation of City's findings to Contractor.